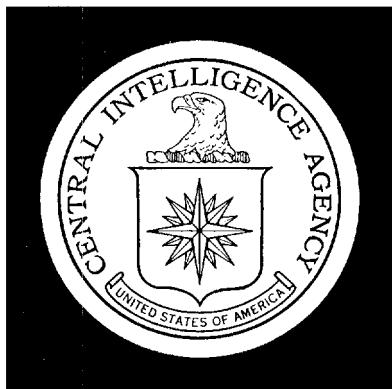


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PORtUGAL: Prime Minister Caetano's proposal for greater autonomy for the overseas territories is likely to be the most hotly contested item in the constitutional reform program presented to the National Assembly this week.

Caetano proposed that the overseas territories become "autonomous regions" within the unitary Portuguese state. The regions would organize their internal administration as they wish but the central government would retain control of foreign affairs and national defense, would appoint governors, and would protect civil rights under a policy of non-discrimination.

The Portuguese leader rejected any possibility that Lisbon would give up the territories and stressed the promotion of "spiritual" assimilation while adapting the administration to local conditions. He claimed that the liberation movements in the African provinces are sustained only by foreign nations who permit guerrillas to operate from their sanctuaries.

Caetano's other constitutional proposals are quite modest. They increase the protection of the individual against arbitrary action of officials without impeding the government's power to act in matters it considers vital. Thus changes in civil rights will reinforce the judicial guarantees of the accused and regulate preventive imprisonment. On the other hand, the government is to be given the power to declare a state of siege, a right formerly reserved for the National Assembly.

Caetano presumably believes he has a good chance of getting his proposals accepted even though

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they will not satisfy the liberals and will antagonize the conservatives on whose support he still depends. In the case of autonomy for the overseas territories, he may not have reckoned on the impact of foreign criticism of Portugal's role in the recent incursions into the Republic of Guinea. National pride in the face of such criticism may stiffen domestic opposition to autonomy.

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CANADA: [Ottawa has announced additional budget expenditures for this year to stimulate real growth and reduce unemployment.]

[The budget changes include a ten-percent increase in unemployment compensation and the creation of a fund of about \$150 million to provide loans to provincial governments for public works projects. At the same time, an existing three-percent surtax to dampen inflation was extended for another year.]

[These measures are part of a broader strategy to combat both inflation and the relatively high unemployment that currently confronts Canada, as well as most other industrial nations. Earlier measures included floating the Canadian dollar on the foreign exchanges and four reductions in the bank discount rate between mid-May and mid-November.]

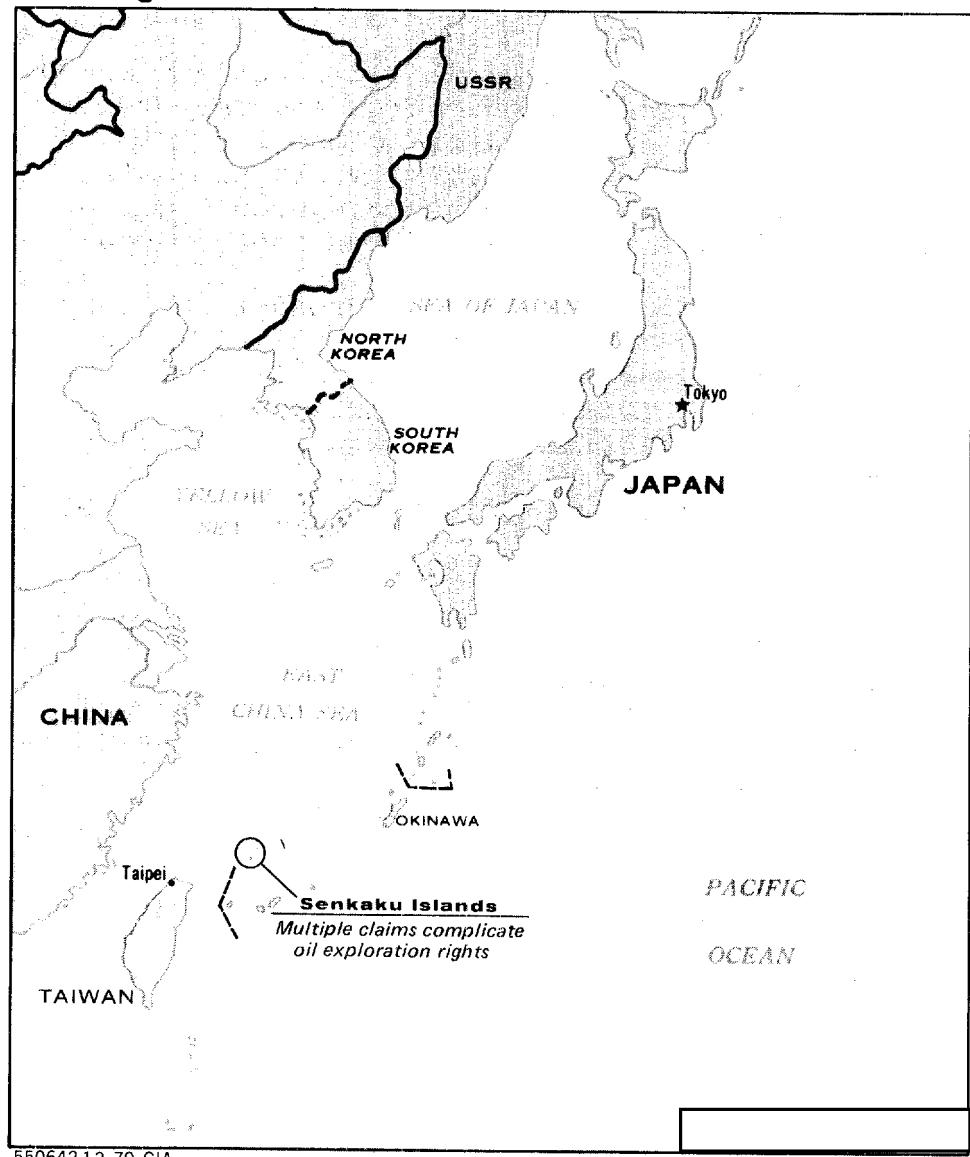
[The decision to further increase the budget deficit for the current fiscal year, which ends in March 1971, reflects the government's awareness of the impact of unemployment on political unrest. This is made clear by the allocation to Quebec of a large share of the public works funds.]

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Peking Claims Senkaku Islands



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COMMUNIST CHINA: Peking's recent claim to the Senkaku Islands is certain to complicate the dispute over oil exploration rights in the East China Sea.

The controversy heated up late this summer with Japan and Taiwan supporting rival claims to that area. On the basis of its claim that the islands are part of the Chinese continental shelf, Taiwan--over Japanese objections--granted permission to several US oil companies to prospect in the area soon after deposits were discovered. The situation now has apparently eased somewhat and the Japanese, Chinese Nationalists, and South Koreans are apparently negotiating an agreement to form special committees to seek ways for the joint development of the oil resources.

Peking officially entered its claim on 3 December, when a New China News Agency broadcast containing most of Peking's standard anti-Japanese propaganda themes was aired. The broadcast was particularly critical of US and Japanese "collusion" in attempting to annex Chinese territory for Japan, and accused the Japanese of having a special need for strategic materials such as petroleum to help in their remilitarization.

Peking did not give a precise definition of the extent of its claims other than strongly objecting to exploration among the islands and water areas that belong to China. The grounds for Peking's claim, however, are presumably the same as Taiwan's, legally, geographically, and historically. The parting of the ways comes over the question of which government--Peking or Taipei--is the legitimate government of China.

Taiwan has so far not reacted to Peking's announcement, but probably looks on it with somewhat guarded satisfaction. In Tokyo, Foreign Minister Aichi responded that sovereignty of the Senkakus undoubtedly belonged to Japan, and that it is non-negotiable.

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SOUTHEAST ASIA: Damage from recent typhoons in Southeast Asia is unlikely to cause worldwide rice shortage.

The storm damage occurred mainly in East Pakistan, where the 1971 crop may have been reduced by as much as one million tons. Lesser damage occurred in the Philippines, where an estimated five to ten percent reduction in the crop may necessitate imports for the first time in several years. Although South Vietnam also suffered some losses, the major producing areas were not affected and imports next year are likely to be only slightly higher than earlier planned.

Despite these losses, world rice production is expected to reach record levels and the shortfall from storm damage can easily be replaced by imports from traditional exporting countries. Rice stocks in Thailand and Taiwan, both of which are anticipating production increases, are at record levels. The US and Japan also will have large amounts of rice available for export. Japanese export rice stocks alone are about equivalent to total world rice imports last year.

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JAPAN-US: [Friction may soon arise between the US and Japan if discriminatory hikes in the price that Japan must pay for Iranian oil are adopted.]

[Japan is almost totally dependent on foreign sources of oil. The Iranians are now considering a proposal which could result in Japan paying the same delivered price as West European countries, even though shipping costs to Japan are less. The US Embassy in Tokyo speculates that there would be a very strong Japanese reaction to such a proposal. Because of American oil company involvement in the Iranian consortium, some Japanese Government and business leaders will no doubt assume that there was US complicity in such an action,]

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[In the context of earlier fears that the US might impose limits on exports of coking coal and steel scrap to Japan, and recent apprehensions over passage of pending US protectionist legislation, a belief that the US is working against Japanese interests in the case of oil pricing could have unfortunate political and psychological ramifications. It would certainly reinforce the Japanese desire to exercise greater control over their sources of raw materials, and their belief that the identity of economic interests which has characterized postwar US-Japanese relations is gradually changing.]

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ISRAEL-LEBANON: The increasing number of incidents along the border may soon provoke Israeli action against Fatah bases in Lebanon. Israeli Chief of Staff Bar-Lev yesterday complained to the US ambassador that terrorist acts had been averaging about one a day for the last three weeks. Bar-Lev stated that the Lebanese had informed the Israelis that the Lebanese Army was controlling the border west of the Hasbani River in southern Lebanon, but had no forces east of the river where Fatah elements were located. Bar-Lev stated that if the rate of incidents continued to rise, Israel would have to react. [Redacted]

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